

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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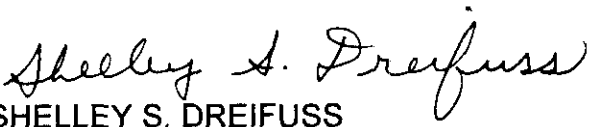
Postal Rate and Fee Changes, 1997)

Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: JAMES F. CALLOW (USPS/OCA-T500-30-35)
(February 11, 1998)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T500-30-35, dated January 28, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,


SHELLEY S. DREIFUSS
Attorney
Office of the Consumer Advocate

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T500-30-35

USPS/OCA-T500-30. Please refer to Table 13 of your testimony, at pages 42-43.

(a) Please confirm that "Non-CAG Costs" are allocated among fee groups according to the number of boxes in each group. If you do not confirm, please explain why not.

(b) Please confirm that "Non-CAG costs" constitute about 78 percent of total "All Other" costs (\$81,827/\$104,580). If you do not confirm, please explain.

(c) Please confirm that "Supervisor Costs" and "Mailhandler Costs" are allocated among fee groups according to the number of boxes in each group, except that the boxes are zeroed for those CAGs that have no (or virtually no) supervisors or mailhandlers, respectively. If you do not confirm, please explain why not.

(d) Please confirm that "Postmaster Costs" are allocated among fee groups according to your estimate of the number of postmasters in each group, and then to box size according to the number of boxes of each size in each group. If you do not confirm, please explain why not.

(e) Please confirm that you allocate CAG-related "All Other" labor costs (postmaster, supervisors, and mailhandlers) for your proposed fee groups as follows:

<i>Fee Group</i>	<i>Labor Costs Per Box</i>
A	\$2.86
B	\$2.87
C-I	\$2.89
C-II	\$0.89
C-III	\$0.53
D-I	\$2.90
D-II	\$0.84
D-III	\$0.39
E	\$0.60
Total	\$1.45

A. (a) Not confirmed. Non-CAG costs "are allocated proportionally to the total number of boxes, as shown in Table 13D." OCA-T-500 at 51. Also, *compare* OCA-T-500, Table 13D, and USPS-T-24, Table 10.

(b) Confirmed. See my response to USPS/OCA-T500-20(b).

(c) Not confirmed. Supervisor and mailhandler costs are allocated based upon the percent of total "supervisor" boxes and "mailhandler" boxes, respectively.

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See OCA-T-500, Table 13C, Columns [c] and [e]. See also OCA-T-500 at 47-49 for a description of the allocation process.

(d) Confirmed. However, a more complete description of the process of allocating postmasters costs is found in OCA-T-500 at 45-46.

(e) Confirmed.

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USPS/OCA-T500-31. Please refer to your response to interrogatory USPS/OCA-T500-3.

(a) Please confirm that your method for allocating postmaster costs assumes that each postmaster incurs the same dollar amount of post office box "All Other" costs. If you do not confirm, please explain why not.

(b) Do you believe that postmasters at large offices are as likely to perform post office box "All Other" work as postmasters at small offices? If so, please explain the basis for your response.

(c) Please confirm that your allocation of post office box labor costs does not reflect the possibility that post office box "All Other" activities that are performed by mailhandlers and supervisors at larger offices are performed by postmasters and clerks at smaller offices. If you do not confirm, please explain why not.

A. (a) In the absence of average postmasters salaries by CAG, I used the number of postmasters in each CAG level in each fee group to distribute volume-variable postmasters costs. Consequently, in my allocation methodology, each postmaster has an equal weight in the distribution of postmaster costs to fee groups. On that basis, confirmed.

(b) According to witness Lion, "All Other costs are primarily labor costs for window service, and related supervisory and personnel costs." USPS-T-24 at 19. I do not know whether postmaster in larger offices are as likely to perform post office box "All Other" work as postmasters at smaller offices. However, it would not be unreasonable to expect that, in larger offices where mailhandlers and supervisors (in addition to clerks) are employed, postmasters do not perform as much "All Other" work as postmasters in smaller offices.

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(c) Confirmed, with respect to clerks. Not confirmed, with respect to postmasters. My allocation methodology distributes a larger amount of postmaster costs to boxes in smaller offices than larger offices.

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USPS/OCA-T500-32. Please refer to your Table 18. Please confirm that you are proposing a 40 percent fee increase for over 62 percent of Group C boxes, and a 25 percent increase for over 69 percent of Group D boxes. If you do not confirm, please explain why not.

A. Partially confirmed. In the TYAR, 58.3 percent $(4,153,447/(4,153,447+2,751,407+216,510))$ of boxes in Fee Group C have a 40 percent increase, while 69.9 percent $(4,156,971/(63,425+1,724,095+4,156,971))$ of boxes in Fee Group D have a 25 percent increase.

In developing my proposed fees, new Fee Group C-I boxholders pay higher fees because they have higher unit box costs. By contrast, new Fee Group D-III boxholders have lower unit box costs. Consequently, boxholders in new Fee Group C-I have a higher percentage fee increase than new Fee Group D-III.

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USPS/OCA-T500-33. Please refer to your response to interrogatory USPS/OCA-T500-6(a). Please confirm that an office's revenues could change, so that it needs to be reclassified, even though there has been no change in the office's costs. If you do not confirm, please explain why not.

A. Partially confirmed. The question seems to imply that a change in an office's revenues would automatically result in the reclassification of an office to a different fee group, even though there is no change in an office's costs. Please note that such a reclassification would arise at four places: between CAGs D and E and CAGs G and H within Fee Groups C and D. (When the new fee Groups are ultimately merged, the need to reclassify an office would arise at only two places). However, as stated in my response to USPS/OCA-T500-6(b), the reclassification of an office into a different fee group could occur at the time changes in post office box fees are implemented by the Postal Service.

The situation described in the question is possible in the short-term but unlikely over the long-term. Changes in an office's revenues would likely involve changes in cost. Given the Postal Service's determination that there is a significant relationship between the CAG designation of an office and its associated square-foot rent, I would expect that, over time, a higher (or lower) CAG designation would reflect higher (or lower) average rental costs (and possibly other costs as well), even though there is no change in an office's costs at the time of reclassification.

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USPS/OCA-T500-34. Please refer to your response to interrogatory USPS/OCA-T500-7, and to library reference LR-OCA-2 at page 17.

(a) Please provide the mean cost for all offices, combining City-Other and Non-city.

(b) Please confirm that OCA-LR-2 shows that there are offices with high rental costs (at least twice the mean cost) in each of the CAGs.

(c) In your response to interrogatory USPS/OCA-T500-7, you state that you decided to use the Postal Service's determination from Docket No. R90-1 that some CAG A-D offices were in high-cost areas as the basis for defining your new fee groups C-I and D-I. Is your goal for groups C-I and D-I to include offices "in high cost areas", offices with high postal costs, or offices with high revenues? Please explain your response.

A. (a) The mean cost for all city-other and non-city offices, combined, is $6.5147106 = ((6,050/20,220 * 7.7266699) + (14,170/20,220 * 5.9972545))$. See OCA-LR-2 at 17.

(b) Confirmed. However, the comparison is not relevant. I rejected establishing fee groups based upon individual CAG levels, and instead established my new fee groups based upon groupings of CAG levels.

A more relevant comparison, if one is to be made, is between offices with high rental costs and the mean of each delivery group. Comparing the mean and the maximum for delivery groups reveals offices with average rental costs at least twice the mean in each delivery group proposed by the Postal Service and my proposed delivery groups. Compare US Postal Service LR-H-188 at 23-24, and my response to USPS/OCA-T500-28(g).

(c) The question presumes that the three choices—offices "in high cost areas," offices with high postal costs, and offices with high revenues—are unrelated. The CAG

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designation of an office clearly provides information as to whether an office generates “high” versus “low” revenues. The CAG designation also reveals something about location. As stated in my response to USPS/OCA-T500-14(a), the Postal Service has determined that higher CAG offices tend to be located in higher rent urban areas, while lower CAG offices tend to be located in lower rent rural areas. Finally, the CAG designation of an office also informs about postal costs. Again, according to the Postal Service, “there is a significant relationship between the CAG designation of a facility and its associated square-foot rent (e.g. CAG A offices have higher rents than CAG L offices).” Docket No. R90-1, USPS Library Reference F-183, at 2, n. 2.

It is my goal to define new Fee Groups C-I and D-I by grouping offices with high average postal rental costs. I am able to group offices with high average postal rental costs because of the CAG designations of the offices.

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USPS/OCA-T500-35. Please refer to your response to interrogatory USPS/OCA-T500-9.

(a) Do you believe that the Groups C and D fees can be merged with two more changes of the same magnitude you propose in this case?

(b) Please confirm that two more 40 percent increases for Group C-I, and 100 percent increases for Group D-1, would leave Group D-1 more than \$13 below Group C-1. If you do not confirm, please explain why not.

(c) Please confirm that a similar process for Groups C-II and D-II, and Groups C-III and D-III would leave gaps even larger than \$13 between these fee groups after the second proceeding. If you do not confirm, please explain why not.

A. (a) No. However, in my response to UPS/OCA-T500-9, I did not assume two subsequent increases of exactly the same magnitude as proposed in this case. For example, in new Fee Group C-I, fee increases of less than 40 percent in subsequent proceedings could be utilized. Similarly, in new Fee Groups D-II and D-III, fee increases of more than 50 percent and 25 percent, respectively, would likely be necessary. As a result, I believe that, through a combination of increases that are both greater than and less than those proposed in this proceeding, fees for boxholders in new Fee Groups D-I, D-II and D-III could be brought to parity with fees for boxholders in new Fee Groups C-I, C-II and C-III in two more rate proceedings.

(b) Partially confirmed. Two more 40 percent increases for new Fee Group C-I, and two more 100 percent increases for new Fee Group D-I, would leave only box sizes 1, 4 and 5, from new Fee Group D-I more than \$13 below the same size boxes in new Fee Group C-I. Two more fee increases of this magnitude would result in box sizes 2 and 3 in new Fee Group D-I exceeding the fees for the same size boxes in new Fee Group C-I.

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(c) Confirmed. However, in my response to UPS/OCA-T500-9, I did not assume two subsequent increases of exactly the same magnitude as proposed in this case. See my response to part (a) above.

DECLARATION

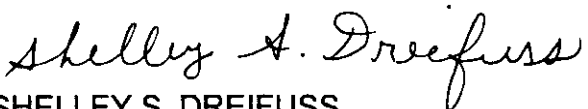
I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T500-30-35 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 2-11-98

James F. Callow

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


SHELLEY S. DREIFUSS
Attorney

Washington, DC 20268-0001
February 11, 1998